

ATHERTON COMMUNITY SCHOOLS

BURTON, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 20, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Atherton Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Atherton Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Atherton Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Atherton Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 20, 2006 on our consideration of the Atherton Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Atherton Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Atherton Community Schools

3354 S. Genesee Road, Burton, Michigan 48519

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Atherton Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

ATHERTON COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Atherton Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal year ended June 30, 2006 and 2005:

NET ASSETS SUMMARY

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$2,483,628	\$2,401,817
Non-Current Assets	<u>10,410,904</u>	<u>10,633,365</u>
<u>TOTAL ASSETS</u>	<u>\$12,894,532</u>	<u>\$13,035,182</u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,200,296	\$1,223,563
Long-Term Liabilities	<u>7,703,989</u>	<u>8,075,314</u>
Total Liabilities	\$8,904,285	\$9,298,877
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related debt	2,422,404	2,302,610
Restricted - Debt Service	52,132	34,216
Unrestricted	<u>1,515,711</u>	<u>1,399,479</u>
Total Net Assets	<u>\$3,990,247</u>	<u>\$3,736,305</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$12,894,532</u>	<u>\$13,035,182</u>

ATHERTON COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

<u>REVENUES</u>	<u>2006</u>	<u>2005</u>
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$2,230,329	\$2,095,622
Property Taxes Levied for Debt Service	722,141	686,620
State of Michigan Unrestricted Foundation Aid	5,030,570	4,704,283
Other General Revenues	<u>143,521</u>	<u>240,579</u>
Total General Revenues	\$8,126,561	\$7,727,104
<u>Operating Grants:</u>		
Federal	712,506	726,970
State of Michigan	519,666	465,160
Other Operating Grants	<u>199,824</u>	<u>182,771</u>
Total Operating Grants	\$1,431,996	\$1,374,901
<u>Charges for Services:</u>		
Food Service	169,270	164,374
Athletics	39,357	22,469
Other Charges for Services	<u>1,450</u>	<u>3,423</u>
Total Charges for Services	<u>\$210,077</u>	<u>\$190,266</u>
Total Revenues	\$9,768,634	\$9,292,271
<u>EXPENSES</u>		
Instruction & Instructional Support	5,301,408	5,029,084
Support Services	2,935,793	2,971,079
Community Services	41,564	64,232
Food Service	432,975	447,375
Athletics	157,407	175,952
Other Capital Outlay	120	68,415
Interest on Long-Term Debt	375,934	390,551
Depreciation	<u>269,491</u>	<u>79,397</u>
Total Expenses	<u>\$9,514,692</u>	<u>\$9,226,085</u>
<u>INCREASE (DECREASE) IN NET ASSETS</u>	\$253,942	\$66,186
<u>BEGINNING NET ASSETS</u>	<u>3,736,305</u>	<u>3,670,119</u>
<u>ENDING NET ASSETS</u>	<u><u>\$3,990,247</u></u>	<u><u>\$3,736,305</u></u>

ATHERTON COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets increased by \$253,942 to a total of \$3,990,247. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$119,794 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's Unrestricted Net Assets increased by \$116,232 during the year and the restricted portion of the net assets increased by \$17,916. The restricted Net Assets consist of the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenses for the year by \$253,942. The total revenues increased by \$476,363 over last years amounts. Property tax revenue increased and state aid increased. Expenses increased by \$288,607 over last year. Major changes were increases in depreciation, increases in wages from the settlement of collective bargaining agreements, increases in the costs of fringe benefits (health, dental, vision insurance) and a mandatory increase from the Michigan School Personnel Retirement System in the amount contributed per employee. The district updated the English Language Arts curriculum, requiring the purchase of new textbooks and supplies. The Board of Education upgraded the football field bleachers and purchased a new pick up truck for the maintenance department, all paid in full in the year of purchase.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$73,707 during the year. Revenues for the year increased by \$379,858. Property taxes increased by \$134,707 due to the increased valuations, new business coming in to the school district and increased collections efforts by the City Treasurer on delinquent personal property taxes. State aid increased \$326,149 due to the increase by the State of Michigan in the foundation allowance and an increase in student enrollment. Grant revenue decreased \$42,933 due to the changing demographics of the Atherton Community Schools district resulting in smaller federal program awards. Expenditures and other financing uses increased by \$34,542, primarily from increases in wages and fringe benefits as mentioned in the discussion of overall operations earlier in this document. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

ATHERTON COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Atherton Community Schools foundation allowance was \$6,875 per student for the 2005-2006 school year. This was an increase from the 2004-2005 foundation allowance of \$6,700. This increase of \$175.00 per student was the first increase in foundation allowance since the 2002-2003 school year and has not kept pace with the increases in the fringe benefit costs nor inflation due to the economic downturn the State of Michigan is still experiencing, resulting in lower sales tax revenues which are the basis of school funding.

3. Student Enrollment:

The District's student enrollment for the fall count of 2005-2006 was 1,078 students. This was an increase of 35 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 17.9172 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$2,215,432. This was an increase of \$119,810 or 6% from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$8,186,438	\$8,450,808	\$8,526,159	3.23%	0.89%
Expenditures	8,466,949	8,587,851	8,452,452	1.43%	1.58%
<u>TOTAL</u>	<u>(\$280,511)</u>	<u>(\$137,043)</u>	<u>\$73,707</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Atherton Community Schools amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year.

ATHERTON COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ANALYSIS OF BUDGETS: (Continued)

Original vs. Final Budgets

Revenues

The variance in the amount of the original budget and the final budget reflects the conservative estimates used by administration and the Board of Education to adopt the budget. The budget for the school year is developed and adopted by June 30 of each year. The school district does not know at that time what the State of Michigan will appropriate for the foundation allowance nor does it know what will be appropriated from the various grant sources it utilizes. The actual appropriations become known in October, four months after the fiscal year has begun. Student enrollment is projected based on prior years actual enrollment; the increase in enrollment in 05-06 resulted in additional revenue for the district.

Expenditures

The variance in the amount of the original budget and the final budget expenditures are the result of collective bargaining agreements being settled and the largest group, the Atherton Education Association agreeing to switch to a less costly health insurance plan. The district also had emergency repairs made in each of the buildings that could not be anticipated and a maintenance truck unexpectedly breaking down requiring immediate replacement.

Actual Results vs. Final Budgets

Revenues

An accounting software programming error resulted in a property tax deposit during the year not being calculated in the general ledger appropriately. This error was discovered after final budgets for the year were adopted and resulted in the difference between final budgeted revenues and actual revenues.

Expenditures

The variance in the final budget expenditures and the actual expenditures were the result of the settlement of several collective bargaining agreements, specifically the settlement with the Atherton Education Association. This agreement called for a switch to a less costly health insurance package as of June 1, of which the actual cost savings of the change were not known until after the budget amendment. Additionally, instructional staff members that were on sick leaves that were either extended or they utilized their entire sick day bank, resulting in a proration of the balance of their contract, also not known until after the final budget amendment. The variance of 1.58% is in line with prior year variations.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
Durant Bonds	\$95,755	\$0	\$7,255	\$88,500
2001 Building & Site Bonds	8,235,000	0	335,000	7,900,000
Vacation & Sick Days Payable	86,814	0	8,726	78,088
<u>Total Long-Term Obligations</u>	<u>\$8,417,569</u>	<u>\$0</u>	<u>\$350,981</u>	<u>\$8,066,588</u>

ATHERTON COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

B. Capital Assets

The district's net investment in capital assets decreased by \$1,214,202 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Capital Assets	\$14,295,317	\$95,216	\$20,395	\$14,370,138
Less: Accumulated Depreciation	(3,661,952)	(309,519)	(12,237)	(3,959,234)
<u>Net Investment Capital Outlay</u>	<u>\$10,633,365</u>	<u>(\$214,303)</u>	<u>\$8,158</u>	<u>\$10,410,904</u>

Significant additions were the renovation of the grand stands and the purchase of a pickup truck.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,100 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 06-07 from 16.34% in 05-06. It is forecast, based on actuarial assumptions that these types of increases will occur until 2012, when the largest bulk of the current "baby boomer" generation enters retirement.

* The Atherton Community Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$8,704,255
<u>EXPENDITURES</u>	<u>8,907,974</u>
<u>NET (UNDER) BUDGET</u>	<u>(\$203,719)</u>

The adopted budget reflects the commitment of the Board of Education and Administration to maintain our current instructional programs and staffing levels. It is recognized that the use of unrestricted fund balance can not continue long term and the Board of Education, Administration and members of the various collective bargaining groups are beginning to look at other ways to help reduce fringe benefit costs, specifically health care, to allow the district to maintain its programs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Manager, Atherton Community Schools.

ATHERTON COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$1,253,765
Investments	71
Accounts Receivable	17,124
Due from Other Governmental Units	1,199,172
Inventory	6,291
Prepaid Expenses	7,205
Total Current Assets	<u>\$2,483,628</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	14,370,138
Less: Accumulated Depreciation	<u>(3,959,234)</u>
Total Noncurrent Assets	<u>\$10,410,904</u>
<u>TOTAL ASSETS</u>	\$12,894,532
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	55,359
Due to Other Governmental Units	55,648
Salaries Payable	444,218
Accrued Expenses	279,652
Deferred Revenue	2,820
Current Portion of Long-Term Obligations	362,599
Total Current Liabilities	<u>\$1,200,296</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>7,703,989</u>
<u>TOTAL LIABILITIES</u>	\$8,904,285
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	2,422,404
Restricted for:	
Debt Service	52,132
Unrestricted	<u>1,515,711</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$3,990,247</u></u>

See accompanying notes to the basic financial statements.

ATHERTON COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$5,301,408	\$0	\$998,448	(\$4,302,960)
Support Services	2,935,793	1,450	115,217	(2,819,126)
Community Services	41,564	0	37,747	(3,817)
Food Service	432,975	169,270	280,584	16,879
Athletics	157,407	39,357	0	(118,050)
Other Capital Outlay	120	0	0	(120)
Interest - Long-Term Obligations	375,934	0	0	(375,934)
Depreciation - Unallocated	269,491	0	0	(269,491)
<u>TOTALS</u>	<u>\$9,514,692</u>	<u>\$210,077</u>	<u>\$1,431,996</u>	<u>(\$7,872,619)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,952,470
State Aid				5,030,570
Interest				51,563
Other General Revenues				91,958
Total General Revenues and Transfers				<u>\$8,126,561</u>
Change in Net Assets				\$253,942
Net Assets - Beginning				<u>3,736,305</u>
<u>Net Assets - Ending</u>				<u>\$3,990,247</u>

See accompanying notes to the basic financial statements.

ATHERTON COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,124,834	\$128,931	\$1,253,765
Investments	0	71	71
Accounts Receivable	15,335	1,789	17,124
Due from Other Funds	0	42,826	42,826
Due from Other Governmental Units	1,199,172	0	1,199,172
Inventory	0	6,291	6,291
Prepaid Expenses	7,205	0	7,205
<u>TOTAL ASSETS</u>	<u>\$2,346,546</u>	<u>\$179,908</u>	<u>\$2,526,454</u>
<u>LIABILITIES</u>			
Accounts Payable	\$38,830	\$16,529	\$55,359
Due to Other Funds	42,826	0	42,826
Due to Other Governmental Units	55,648	0	55,648
Salaries Payable	444,218	0	444,218
Accrued Expenses	220,569	0	220,569
Deferred Revenue	2,500	320	2,820
Total Liabilities	\$804,591	\$16,849	\$821,440
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	6,291	6,291
Debt Retirement	0	52,132	52,132
Designated	43,500	0	43,500
Unreserved:			
Undesignated, Reported In:			
General Fund	1,498,455	0	1,498,455
School Service Funds	0	104,636	104,636
Total Fund Balances	\$1,541,955	\$163,059	\$1,705,014
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$2,346,546</u>	<u>\$179,908</u>	<u>\$2,526,454</u>

See accompanying notes to the basic financial statements.

ATHERTON COMMUNITY SCHOOLS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances:			\$1,705,014
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$14,370,138 and the accumulated depreciation is \$3,959,234			10,410,904
Accrued Interest on Long-Term Debt			(59,083)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
Bonds Payable		\$7,988,500	
Compensated Absences Payable		78,088	
Total Long-Term Liabilities			<u>(8,066,588)</u>
<u>TOTAL NET ASSETS -</u>			<u>\$3,990,247</u>
<u>GOVERNMENTAL ACTIVITIES</u>			

ATHERTON COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$2,402,919	\$951,366	\$3,354,285
State Sources	5,506,703	45,810	5,552,513
Federal Sources	467,207	245,299	712,506
Total Revenues	<u>\$8,376,829</u>	<u>\$1,242,475</u>	<u>\$9,619,304</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	5,318,057	0	5,318,057
Student Services	179,447	0	179,447
Instructional Support	254,282	0	254,282
General Administration	366,004	0	366,004
School Administration	533,991	0	533,991
Business Administration	153,672	0	153,672
Operation & Maintenance of Plant	909,730	0	909,730
Transportation	282,375	0	282,375
Support Services - Other	174,915	0	174,915
Community Services	41,564	0	41,564
Food Service	0	651,711	651,711
Debt Service	0	721,539	721,539
Capital Outlay	0	120	120
Total Expenditures	<u>\$8,214,037</u>	<u>\$1,373,370</u>	<u>\$9,587,407</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$162,792	(\$130,895)	\$31,897
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(179,260)	179,260	0
Other Transfers	90,175	0	90,175
Total Other Financing Sources (Uses)	<u>(\$89,085)</u>	<u>\$179,260</u>	<u>\$90,175</u>
Net Change in Fund Balance	\$73,707	\$48,365	\$122,072
<u>FUND BALANCE - BEGINNING</u>	<u>1,468,248</u>	<u>114,694</u>	<u>1,582,942</u>
<u>FUND BALANCE - ENDING</u>	<u>\$1,541,955</u>	<u>\$163,059</u>	<u>\$1,705,014</u>

See accompanying notes to the basic financial statements.

ATHERTON COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	\$122,072
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(222,461)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	342,255
Change in accrued interest on long-term liabilities	3,350
Decrease in accrued compensated absences	<u>8,726</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$253,942</u>

ATHERTON COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$54,287</u>
<u>TOTAL ASSETS</u>	<u>\$54,287</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$54,287</u>
<u>TOTAL LIABILITIES</u>	<u>\$54,287</u>

See accompanying notes to the basic financial statements.

ATHERTON COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$2,397,760	\$2,293,491	\$2,402,919	\$109,428
State Sources	5,200,317	5,511,294	5,506,703	(4,591)
Federal Sources	531,993	494,651	467,207	(27,444)
Total Revenues	<u>\$8,130,070</u>	<u>\$8,299,436</u>	<u>\$8,376,829</u>	<u>\$77,393</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	5,399,719	5,408,315	5,318,057	90,258
Student Services	147,973	179,709	179,447	262
Instructional Support	244,986	258,543	254,282	4,261
General Administration	386,029	391,375	366,004	25,371
School Administration	554,244	539,891	533,991	5,900
Business Administration	148,189	155,942	153,672	2,270
Operation & Maintenance of Plant	849,910	915,770	909,730	6,040
Transportation	288,053	285,835	282,375	3,460
Support Services - Other	186,012	175,454	174,915	539
Community Services	66,382	41,973	41,564	409
Total Expenditures	<u>\$8,271,497</u>	<u>\$8,352,807</u>	<u>\$8,214,037</u>	<u>\$138,770</u>
Excess of Revenues Over Expenditures	<u>(\$141,427)</u>	<u>(\$53,371)</u>	<u>\$162,792</u>	<u>\$216,163</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(139,084)</u>	<u>(83,672)</u>	<u>(89,085)</u>	<u>(5,413)</u>
Net Change in Fund Balance	<u>(\$280,511)</u>	<u>(\$137,043)</u>	<u>\$73,707</u>	<u>\$210,750</u>
<u>FUND BALANCE - BEGINNING</u>			<u>1,468,248</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$1,541,955</u>	

See accompanying notes to the basic financial statements.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Atherton Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment Pool - MICMS	\$ 71	0.0027	AAAm	100.00%

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$1,362,689 of the District's bank balance of \$1,512,435 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$54,287	\$ 1,308,052
Investments	<u>71</u>
<u>TOTAL</u>	<u>\$ 1,308,123</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 54,287
Cash – District Wide	1,253,765
Investments – District Wide	<u>71</u>
<u>TOTAL</u>	<u>\$ 1,308,123</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 994,325
Federal Grants	132,333
Other Grant Programs & Fees	<u>72,514</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 1,199,172</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the School District had no estimated claims in conjunction with the program.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2006.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$3,973,028	\$0	\$0	\$3,973,028
Land Improvements	9,710,455	52,547	0	9,763,002
Equipment and Furniture	357,112	16,596	20,395	353,313
Vehicles	254,722	26,073	0	280,795
Totals at Historical Cost	\$14,295,317	\$95,216	\$20,395	\$14,370,138
Less: Accumulated Depreciation				
Buildings and Improvements	(3,098,810)	(269,463)	0	(3,368,273)
Land Improvements	(111,463)	(6,648)	0	(118,111)
Equipment and Furniture	(262,055)	(12,473)	(12,237)	(262,291)
Vehicles	(189,624)	(20,935)	0	(210,559)
Total Accumulated Depreciation	<u>(\$3,661,952)</u>	<u>(\$309,519)</u>	<u>(\$12,237)</u>	<u>(\$3,959,234)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$10,633,365</u>	<u>(\$214,303)</u>	<u>\$8,158</u>	<u>\$10,410,904</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 9,424
Support Services	22,790
Food Service	881
Athletics	6,933
Unallocated	264,491
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 304,519</u>

10) GENERAL LONG-TERM DEBT

A) 2001 School Building and Site Bonds

Atherton Community Schools has issued General Obligation Bonds dated November 13, 2001, in the amount of \$9,125,000, bearing interest at rates varying from 4.00% to 6.00% per annum. These bonds were issued for the purpose of remodeling, furnishing, equipping, developing and improving the site for Atherton High School. remodel, develop and improve the site for Van Y Elementary and Atherton Middle School; and to acquire, install, equip and re-equip existing school buildings for technology. The balance of the bonds as of June 30, 2006 was \$7,900,000.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

10) GENERAL LONG-TERM DEBT (Continued)

B) Durant Resolution Package Bonds

Atherton Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$149,883 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$88,500.

C) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	BONDS		
	PAYABLE	INTEREST	TOTAL
June 30, 2007	\$362,599	\$357,425	\$720,024
June 30, 2008	410,032	347,837	757,869
June 30, 2009	403,341	312,884	716,225
June 30, 2010	423,738	288,787	712,525
June 30, 2011	449,154	263,471	712,625
June 30, 2012-2016	2,589,636	990,813	3,580,449
June 30, 2017-2021	3,350,000	415,000	3,765,000
<u>TOTAL</u>	<u>\$7,988,500</u>	<u>\$2,976,217</u>	<u>\$10,964,717</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$377,870.

D) Changes in General Long-Term Debt

	Balance			Balance	Amount Due
<u>Governmental Activities:</u>	July 1, 2005	Additions	Deductions	June 30, 2006	in One Year
Durant Bonds	\$95,755	\$0	\$7,255	\$88,500	\$7,599
2001 Building & Site Bonds	8,235,000	0	335,000	7,900,000	355,000
Vacation & Sick Days Payable	86,814	0	8,726	78,088	0
<u>Total Governmental Activities</u>	<u>\$8,417,569</u>	<u>\$0</u>	<u>\$350,981</u>	<u>\$8,066,588</u>	<u>\$362,599</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL FUND DESIGNATIONS

The general fund designations are as follows:

Technology	<u>\$ 43,500</u>
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12) OPERATING LEASES

Atherton Community Schools has entered into the operating leases summarized below:

- A) The District entered into a operating lease with Brady's Business Systems for copiers on September 23, 2003. The lease payment is \$24,074 per annum for a period of five years.
- B) The District entered into a operating lease with Midwest Transit Equipment of Michigan, Inc. to lease five buses. The lease requires an annual payment of \$43,544 for a period of five years.
- C) The District entered into an operating lease with TCF Express Leasing to lease computer network server equipment. The lease requires an annual payment of \$9,676.
- D) Future minimum payments for the operating leases is as follows:

	<u>COPIER</u>	<u>BUSES</u>	<u>COMPUTER EQUIPMENT</u>	<u>TOTAL</u>
June 30, 2007	\$24,074	\$43,544	\$9,676	\$77,294
June 30, 2008	24,074	43,544	0	67,618
June 30, 2009	<u>0</u>	<u>43,544</u>	<u>0</u>	<u>43,544</u>
<u>TOTAL</u>	<u>\$48,148</u>	<u>\$130,632</u>	<u>\$9,676</u>	<u>\$188,456</u>

13) INTERFUND ACTIVITY

Interfund balances at June 30, 2006 consisted of the following:

DUE FROM	
DUE TO	SPECIAL
	REVENUE
	<u>FUND</u>
	<u>\$42,826</u>
General Fund	

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS TO	TRANSFERS FROM
	GENERAL FUND
Athletics Fund	<u>\$179,260</u>

These transfers were made to subsidize the cost of services for athletics.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$761,003, \$678,392 and \$601,997, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

16) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to Brown & Brown Insurance and Accident Fund.

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which are THE Special Education Cluster grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

OTHER SUPPLEMENTAL
INFORMATION

ATHERTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	Special Revenue Funds	2001 Debt Service Fund	Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$78,588	\$50,343	\$0	\$128,931
Investments	0	0	71	71
Accounts Receivable	0	1,789	0	1,789
Due from Other Funds	42,826	0	0	42,826
Inventory	6,291	0	0	6,291
<u>TOTAL ASSETS</u>	<u>\$127,705</u>	<u>\$52,132</u>	<u>\$71</u>	<u>\$179,908</u>
<u>LIABILITIES</u>				
Accounts Payable	\$16,458	\$0	\$71	\$16,529
Deferred Revenue	320	0	0	320
Total Liabilities	\$16,778	\$0	\$71	\$16,849
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	6,291	0	0	6,291
Debt Retirement	0	52,132	0	52,132
Unreserved:				
Undesignated, Reported In:				
School Service Fund	104,636	0	0	104,636
Total Fund Balances	\$110,927	\$52,132	\$0	\$163,059
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$127,705</u>	<u>\$52,132</u>	<u>\$71</u>	<u>\$179,908</u>

ATHERTON COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Debt Service Fund	Durant Debt	Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>					
Local Sources					
Cafeteria Sales	\$169,270	\$0	\$0	\$0	\$169,270
Athletic Activities	39,357	0	0	0	39,357
Property Taxes	0	722,141	0	0	722,141
Earnings on Investments and Deposits	1,884	6,789	0	3	8,676
Other Local Revenues	11,922	0	0	0	11,922
Total Local Sources	<u>\$222,433</u>	<u>\$728,930</u>	<u>\$0</u>	<u>\$3</u>	<u>\$951,366</u>
State Sources	35,285	0	10,525	0	45,810
Federal Sources	245,299	0	0	0	245,299
Total Revenues	<u>\$503,017</u>	<u>\$728,930</u>	<u>\$10,525</u>	<u>\$3</u>	<u>\$1,242,475</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>179,260</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>179,260</u>
Total Revenues & Other Financing Sources	<u>\$682,277</u>	<u>\$728,930</u>	<u>\$10,525</u>	<u>\$3</u>	<u>\$1,421,735</u>
<u>EXPENDITURES</u>					
Food Service & Athletics	651,711	0		0	651,711
Debt Service					
Principal	0	335,000	7,255	0	342,255
Interest	0	374,600	3,270	0	377,870
Other	0	1,414	0	0	1,414
Capital Outlay					
Other	0	0	0	120	120
Total Expenditures	<u>\$651,711</u>	<u>\$711,014</u>	<u>\$10,525</u>	<u>\$120</u>	<u>\$1,373,370</u>
Net Change in Fund Balance	<u>\$30,566</u>	<u>\$17,916</u>	<u>\$0</u>	<u>(\$117)</u>	<u>\$48,365</u>
<u>NET ASSETS - BEGINNING</u>	<u>80,361</u>	<u>34,216</u>	<u>0</u>	<u>117</u>	<u>114,694</u>
<u>NET ASSETS - ENDING</u>	<u>\$110,927</u>	<u>\$52,132</u>	<u>\$0</u>	<u>\$0</u>	<u>\$163,059</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$78,588	\$0	\$78,588
Due from Other Funds	4,903	37,923	42,826
Inventory	6,291	0	6,291
<u>TOTAL ASSETS</u>	<u>\$89,782</u>	<u>\$37,923</u>	<u>\$127,705</u>
<u>LIABILITIES</u>			
Accounts Payable	\$2,772	\$13,686	\$16,458
Deferred Revenue	320	0	320
Total Liabilities	\$3,092	\$13,686	\$16,778
<u>FUND EQUITY</u>			
Reserved for Inventory	6,291	0	6,291
Unreserved and Undesignated	80,399	24,237	104,636
Total Fund Equity	\$86,690	\$24,237	\$110,927
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$89,782</u>	<u>\$37,923</u>	<u>\$127,705</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$169,270	\$0	\$169,270
Athletic Activities	0	39,357	39,357
Earnings on Investments and Deposits	1,884	0	1,884
Other Local Revenues	6,963	4,959	11,922
Total Local Sources	<u>\$178,117</u>	<u>\$44,316</u>	<u>\$222,433</u>
<u>State Sources</u>			
State Reimbursements	35,285	0	35,285
<u>Federal Sources</u>			
Federal Reimbursements	217,859	0	217,859
Commodities	27,440	0	27,440
Total Federal Sources	<u>\$245,299</u>	<u>\$0</u>	<u>\$245,299</u>
Total Revenues	<u>\$458,701</u>	<u>\$44,316</u>	<u>\$503,017</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	179,260	179,260
Total Revenues and Other Financing Sources	<u>\$458,701</u>	<u>\$223,576</u>	<u>\$682,277</u>
<u>EXPENDITURES</u>			
Salaries - Professional	28,563	0	28,563
Salaries - Non-Professional	129,014	69,253	198,267
Insurances	18,126	0	18,126
Fica, Retirement, Etc.	40,835	16,536	57,371
Other Benefits	1,500	0	1,500
Purchased Services	10,377	40,704	51,081
Supplies and Materials	202,886	11,570	214,456
Capital Outlay	17,135	61,004	78,139
Other	254	3,954	4,208
Total Expenditures	<u>\$448,690</u>	<u>\$203,021</u>	<u>\$651,711</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$10,011</u>	<u>\$20,555</u>	<u>\$30,566</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$76,679</u>	<u>\$3,682</u>	<u>\$80,361</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$86,690</u>	<u>\$24,237</u>	<u>\$110,927</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET	ACTUAL	VARIANCE
<u>REVENUES FROM</u>			
<u>Local Sources</u>			
Property Tax Levy	\$2,151,998	\$2,230,329	\$78,331
Payments in Lieu of Tax	0	9,697	9,697
Earnings on Investments and Deposits	41,734	42,887	1,153
Transfer from ISD - Medicaid - Fee-for-Service	12,897	18,359	5,462
Other Local Revenues	86,862	101,647	14,785
Total Revenues from Local Sources	\$2,293,491	\$2,402,919	\$109,428
<u>State Sources</u>			
Unrestricted			
State Aid - Foundation - Sec. 20	5,035,401	5,030,570	(4,831)
Restricted			
Special Education	191,196	191,196	0
At Risk	221,588	221,408	(180)
Durant	14,988	14,988	0
Other State Grants	48,121	48,541	420
Total Revenues from State Sources	\$5,511,294	\$5,506,703	(\$4,591)
<u>Federal Sources</u>			
Title I	165,410	165,102	(308)
Title V	4,727	2,875	(1,852)
Improving Teacher Quality	59,380	50,523	(8,857)
Technology Literacy	3,086	0	(3,086)
Medicaid	3,756	5,207	1,451
Special Education	253,422	239,310	(14,112)
Homeland Security	4,190	4,190	0
Transition Services	680	0	(680)
Total Revenues from Federal Sources	\$494,651	\$467,207	(\$27,444)
Total Revenues	\$8,299,436	\$8,376,829	\$77,393
<u>OTHER FINANCING SOURCES</u>			
Transfers from Other Districts	73,244	69,402	(3,842)
Other Transfers	3,812	5,612	1,800
County Special Education Tax	74,316	74,316	0
Total Other Financing Sources	\$151,372	\$149,330	(\$2,042)
<u>TOTAL REVENUES AND OTHER FINANCING SOURCES</u>	<u>\$8,450,808</u>	<u>\$8,526,159</u>	<u>\$75,351</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

<u>INSTRUCTION</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<u>BASIC PROGRAMS</u>			
<u>Elementary</u>			
Salaries - Professional	\$737,410	\$702,317	\$35,093
Salaries - Non-Professional	77,792	60,329	17,463
Insurances	153,598	166,943	(13,345)
Fica, Retirement, Etc.	211,241	192,862	18,379
Purchased Services	0	585	(585)
Supplies and Materials	39,057	39,057	0
Total Elementary	<u>\$1,219,098</u>	<u>\$1,162,093</u>	<u>\$57,005</u>
<u>Middle School</u>			
Salaries - Professional	907,735	910,021	(2,286)
Salaries - Non-Professional	65,570	65,062	508
Insurances	184,501	190,796	(6,295)
Fica, Retirement, Etc.	242,120	233,743	8,377
Other Benefits	11,468	8,602	2,866
Purchased Services	0	585	(585)
Supplies and Materials	48,642	49,418	(776)
Capital Outlay	10,995	10,995	0
Total Middle School	<u>\$1,471,031</u>	<u>\$1,469,222</u>	<u>\$1,809</u>
<u>High School</u>			
Salaries - Professional	907,427	879,630	27,797
Salaries - Non-Professional	30,952	29,962	990
Insurances	194,723	194,190	533
Fica, Retirement, Etc.	231,257	219,749	11,508
Other Benefits	12,094	10,321	1,773
Purchased Services	34,200	34,200	0
Supplies and Materials	65,879	65,830	49
Capital Outlay	7,680	7,680	0
Total High School	<u>\$1,484,212</u>	<u>\$1,441,562</u>	<u>\$42,650</u>
<u>Total Basic Programs</u>	<u>\$4,174,341</u>	<u>\$4,072,877</u>	<u>\$101,464</u>
<u>ADDED NEEDS</u>			
<u>Special Education</u>			
Salaries - Professional	374,403	415,548	(41,145)
Salaries - Non-Professional	83,690	79,724	3,966
Insurances	97,657	96,541	1,116
Fica, Retirement, Etc.	118,537	119,822	(1,285)
Other Benefits	4,320	4,320	0
Purchased Services	2,681	1,611	1,070
Supplies and Materials	50,730	40,160	10,570
Total Special Education	<u>\$732,018</u>	<u>\$757,726</u>	<u>(\$25,708)</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<u>INSTRUCTION</u> (Continued)			
<u>ADDED NEEDS</u> (Continued)			
<u>Compensatory Education</u>			
Salaries - Professional	\$280,634	\$280,164	\$470
Insurances	68,493	67,704	789
Fica, Retirement, Etc.	69,686	66,520	3,166
Other Benefits	1,680	1,080	600
Purchased Services	20,339	12,538	7,801
Supplies and Materials	15,650	15,111	539
Total Compensatory Education	<u>\$456,482</u>	<u>\$443,117</u>	<u>\$13,365</u>
<u>Vocational Education</u>			
Salaries - Professional	7,500	7,500	0
Salaries - Non-Professional	666	666	0
Fica, Retirement, Etc.	1,982	1,982	0
Supplies and Materials	35,326	34,189	1,137
Total Vocational Education	<u>\$45,474</u>	<u>\$44,337</u>	<u>\$1,137</u>
<u>Total Added Needs</u>	<u>\$1,233,974</u>	<u>\$1,245,180</u>	<u>(\$11,206)</u>
<u>Total Instruction</u>	<u>\$5,408,315</u>	<u>\$5,318,057</u>	<u>\$90,258</u>
<u>SUPPORT SERVICES</u>			
<u>STUDENT SERVICES</u>			
Salaries - Professional	63,494	65,334	(1,840)
Salaries - Non-Professional	55,892	54,590	1,302
Insurances	27,536	27,620	(84)
Fica, Retirement, Etc.	29,326	29,069	257
Other Benefits	2,288	2,141	147
Supplies and Materials	1,173	693	480
Total Student Services	<u>\$179,709</u>	<u>\$179,447</u>	<u>\$262</u>
<u>INSTRUCTIONAL STAFF</u>			
Salaries - Professional	144,626	142,992	1,634
Salaries - Non-Professional	34,596	34,143	453
Insurances	14,397	14,645	(248)
Fica, Retirement, Etc.	43,436	41,161	2,275
Other Benefits	4,376	4,229	147
Purchased Services	11,271	11,271	0
Supplies and Materials	5,164	5,164	0
Capital Outlay	319	319	0
Other	358	358	0
Total Instructional Staff	<u>\$258,543</u>	<u>\$254,282</u>	<u>\$4,261</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<u>SUPPORT SERVICES (Continued)</u>			
<u>GENERAL ADMINISTRATION</u>			
Salaries - Professional	\$145,283	\$144,792	491
Salaries - Non-Professional	20,075	19,179	896
Insurances	21,467	21,186	281
Fica, Retirement, Etc.	58,032	47,952	10,080
Other Benefits	4,664	4,137	527
Purchased Services	108,536	97,681	10,855
Supplies and Materials	31,982	29,741	2,241
Other	1,336	1,336	0
Total General Administration	<u>\$391,375</u>	<u>\$366,004</u>	<u>\$25,371</u>
<u>SCHOOL ADMINISTRATION</u>			
Salaries - Professional	239,205	238,788	417
Salaries - Non-Professional	116,360	114,899	1,461
Insurances	43,331	42,046	1,285
Fica, Retirement, Etc.	86,384	84,407	1,977
Other Benefits	4,875	4,875	0
Purchased Services	37,442	36,870	572
Supplies and Materials	10,864	10,676	188
Other	1,430	1,430	0
Total School Administration	<u>\$539,891</u>	<u>\$533,991</u>	<u>\$5,900</u>
<u>BUSINESS OFFICE</u>			
Salaries - Professional	107,568	106,552	1,016
Insurances	14,450	13,811	639
Fica, Retirement, Etc.	26,199	25,534	665
Other Benefits	1,440	1,440	0
Purchased Services	1,995	1,963	32
Supplies and Materials	3,932	4,014	(82)
Other	358	358	0
Total Business Office	<u>\$155,942</u>	<u>\$153,672</u>	<u>\$2,270</u>
<u>OPERATION & MAINTENANCE OF PLANT</u>			
Salaries - Professional	17,557	17,429	128
Salaries - Non-Professional	111,401	107,883	3,518
Insurances	14,321	14,514	(193)
Fica, Retirement, Etc.	34,858	33,730	1,128
Other Benefits	1,600	1,902	(302)
Purchased Services	467,336	465,575	1,761
Supplies and Materials	268,597	268,597	0
Other	100	100	0
Total Operation and Maintenance of Plant	<u>\$915,770</u>	<u>\$909,730</u>	<u>\$6,040</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<u>SUPPORT SERVICES</u> (Continued)			
<u>TRANSPORTATION</u>			
Salaries - Professional	\$16,957	\$16,985	(\$28)
Salaries - Non-Professional	96,054	95,581	473
Insurances	5,138	5,076	62
Fica, Retirement, Etc.	33,095	32,137	958
Other Benefits	3,100	844	2,256
Purchased Services	60,803	60,744	59
Supplies and Materials	38,507	38,777	(270)
Other	32,181	32,231	(50)
Total Transportation	<u>\$285,835</u>	<u>\$282,375</u>	<u>\$3,460</u>
<u>OTHER SUPPORT SERVICES</u>			
Salaries - Professional	18,089	16,985	1,104
Salaries - Non-Professional	8,651	8,536	115
Insurances	4,749	4,737	12
Fica, Retirement, Etc.	7,009	6,103	906
Other Benefits	600	594	6
Purchased Services	135,611	137,215	(1,604)
Supplies and Materials	745	745	0
Total Other Support Services	<u>\$175,454</u>	<u>\$174,915</u>	<u>(\$1,604)</u>
<u>Total Support Services</u>	<u>\$2,902,519</u>	<u>\$2,854,416</u>	<u>\$45,960</u>
<u>COMMUNITY SERVICES</u>			
Salaries - Non-Professional	16,718	16,718	0
Fica, Retirement, Etc.	4,030	3,961	69
Purchased Services	4,000	3,745	255
Supplies and Materials	17,225	17,140	85
Total Community Services	<u>\$41,973</u>	<u>\$41,564</u>	<u>\$409</u>
<u>Total Expenditures</u>	<u>\$8,352,807</u>	<u>\$8,214,037</u>	<u>\$136,627</u>
<u>OTHER FINANCING USES</u>			
Transfers to Other Funds	179,260	179,260	0
Special Ed Consortium	54,837	58,208	(3,371)
Other Transfers	947	947	0
Total Other Financing Uses	<u>\$235,044</u>	<u>\$238,415</u>	<u>(\$3,371)</u>
<u>TOTAL EXPENDITURES AND OTHER FINANCING USES</u>	<u>\$8,587,851</u>	<u>\$8,452,452</u>	<u>\$133,256</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due To (From Student Groups July 1, 2005	Receipts	Disbursements	Due To (From Student Groups June 30, 2006
Adm Bereavement Fund	\$175	\$59	\$179	\$55
Aea Pop & Coffee Fund	365	273	406	232
Art Activity	110	3	0	113
Athletic Activity	1,967	11,979	11,223	2,723
Boys Youth Basketball	1	632	550	83
Boys Youth Basketball Entry Fee	2	0	0	2
Case	80	2	0	82
CC-Fund Raiser	657	19	0	676
Class Of 2000	55	1	0	56
Class Of 2001	55	2	0	57
Class Of 2002	55	2	0	57
Class Of 2003	1,551	0	1,447	104
Class Of 2004	1,510	0	486	1,024
Class Of 2005	3,816	0	3,110	706
Class Of 2006	1,848	1,142	1,737	1,253
Class Of 2007	1,399	10,223	11,027	595
Class Of 2008	296	601	0	897
Class Of 2009	0	2,441	2,441	0
Class Of 99	1,091	0	989	102
Eighth Grade Activity	691	5,543	5,522	712
Fifth Grade Activity	149	1,054	924	279
Fourth Grade Activity	18	0	0	18
Girls Youth Basketball	617	17	0	634
HS Baseball	660	898	1,541	17
HS Boys Basketball	491	1,039	963	567
HS Building Fund	1,753	6,775	8,153	375
HS Cheerleaders	110	2,317	2,336	91
HS Close-Up	288	8	0	296
HS Drama Guild	412	180	369	223
HS Foods	54	1,624	1,399	279
HS Football	0	3,081	0	3,081
HS Girls Basketball	23	7,355	5,306	2,072
HS Homemaking	44	643	576	111
HS Library	208	6	0	214
HS Literary Magazine	1	2,544	2,374	171
HS Shop	194	407	73	528
HS Stage Improvements	1,162	0	131	1,031
HS Student Council	0	3,911	3,188	723
HS Talent Show	238	7	0	245
HS Volleyball	591	3,716	1,918	2,389
Interest & Bank Chgs	255	0	255	0
J Hemingway Fund	5,282	1,603	2,032	4,853
Marketing	221	2,146	1,514	853
MS Arts	465	116	0	581
MS Bldg Fund	450	11,252	8,775	2,927

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due To (From Student Groups July 1, 2005	Receipts	Disbursements	Due To (From Student Groups June 30, 2006
MS Cheerleaders	\$67	\$2	\$0	\$69
MS Choir	1,655	22,884	23,481	1,058
MS Drama	413	199	283	329
MS Flower Fund	135	301	413	23
MS Fundraiser	9	0	0	9
MS Industrial Arts	3	0	0	3
MS Journalism	76	2	0	78
MS Library	21	554	173	402
MS N.H.S.	596	15	90	521
MS Parent Group	120	4	0	124
MS Physical Ed	677	103	779	1
MS R.I.F.	102	3	0	105
MS Ski Trip	91	3,339	3,292	138
MS Special Ed	8	560	558	10
MS Special Ed - Sue Will	213	223	393	43
MS Sports Activity	130	4	0	134
MS Student Council	133	472	505	100
MS Track	63	141	0	204
MS Washington Trip	748	21	0	769
MS Yearbook	1,231	391	971	651
National Honor Society	850	2,933	2,967	816
Powers MS Classroom	313	7	65	255
S A D D	412	12	0	424
S Winters Band Memorial	133	4	0	137
Seventh Grade Activity	1,974	1,267	1,884	1,357
Six Grade Activity	65	3,962	3,300	727
Stage Improvement	265	172	0	437
Temporary Fund	364	10	0	374
Tennis Activity	0	10	0	10
Van Y Bldg Fund	4,490	30,613	26,536	8,567
Van Y Library Fund	190	278	151	317
Van Y Music Fund	28	100	112	16
Varsity Softball	279	584	539	324
Wolverine Writing Center	21	179	109	91
Yearbook	438	7,871	5,000	3,309
Youth Cheerleaders	467	0	467	0
Youth Football	3,054	0	3,054	0
Youth Football Boosters	120	3	0	123
Youth Pom Pon	31	1	0	32
Youth Programs-Misc.	110	3	0	113
Youth Summer Ball	1,094	0	1,094	0
<u>TOTALS</u>	<u>\$50,599</u>	<u>\$160,848</u>	<u>\$157,160</u>	<u>\$54,287</u>

ATHERTON COMMUNITY SCHOOLS - BURTON, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2006

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$149,883

1998 DURANT RESOLUTION PACKAGE BONDS

<u>PAYMENT DATE - MAY 15TH</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL PAYMENT</u>
2007	4.761353%	\$7,599	\$2,925	\$10,524
2008	4.761353%	35,032	14,637	49,669
2009	4.761353%	8,341	2,184	10,525
2010	4.761353%	8,738	1,787	10,525
2011	4.761353%	9,154	1,371	10,525
2012	4.761353%	9,590	935	10,525
2013	4.761353%	10,046	478	10,524
<u>TOTAL</u>		<u>\$88,500</u>	<u>\$24,317</u>	<u>\$112,817</u>

DATE OF ISSUE - November 13, 2001

Original amount of issue - \$9,125,000

2001 SCHOOL BUILDING AND SITE BONDS

<u>PAYMENT DATE</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>NOVEMBER INTEREST REQUIREMENT</u>	<u>MAY INTEREST REQUIREMENT</u>	<u>TOTAL PAYMENT</u>
2007	6.00%	\$355,000	\$177,250	\$177,250	\$709,500
2008	6.00%	375,000	166,600	166,600	708,200
2009	6.00%	395,000	155,350	155,350	705,700
2010	6.00%	415,000	143,500	143,500	702,000
2011	4.00%	440,000	131,050	131,050	702,100
2012	4.00%	460,000	118,400	118,400	696,800
2013	4.00%	485,000	109,200	109,200	703,400
2014	4.00%	515,000	99,500	99,500	714,000
2015	4.00%	540,000	89,200	89,200	718,400
2016	4.00%	570,000	78,400	78,400	726,800
2017	4.00%	605,000	67,000	67,000	739,000
2018	4.00%	635,000	54,900	54,900	744,800
2019	4.00%	670,000	42,200	42,200	754,400
2020	4.00%	710,000	28,800	28,800	767,600
2021	4.00%	730,000	14,600	14,600	759,200
<u>TOTAL</u>		<u>\$7,900,000</u>	<u>\$1,475,950</u>	<u>\$1,475,950</u>	<u>\$10,851,900</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 20, 2006

To the Board of Education of
Atherton Community Schools

In planning and performing our audit of the financial statements of Atherton Community Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Atherton Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

1968 PA 2, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Atherton Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Competitive Bidding Procedures

The District did not follow state-mandated bidding procedures on the purchase of a new pick-up truck for the maintenance department. The purchase price of the truck was over the state mandated threshold requiring competitive bidding.

3. Fundraising Accounting

In an effort to insure that all funds collected by various student groups is properly accounted for, we suggest that the District develop procedures for fundraising events by student groups accounted for in the District's Trust & Agency Fund. The District's Business Manager has proposed several new procedures and reconciliation forms which we suggest should be implemented.

FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.



FUTURE ISSUES (Continued)

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.
- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Atherton Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)



Atherton Community Schools

Page 3

July 20, 2006

FUTURE ISSUES (Continued)

- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

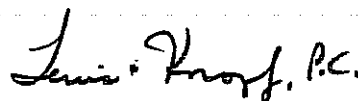
3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Atherton Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS